

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

ANNUAL COMPLIANCE REVIEW, 2015

Docket No. ACR2015

NOTICE OF THE UNITED STATES POSTAL SERVICE OF
FILING OF REVISED ANNUAL COMPLIANCE REPORT PAGES -- ERRATA
(January 21, 2016)

The Postal Service hereby gives notice of filing of a revised version of pages 15, 16, 46, 52, 53, and 59 of the FY 2015 Annual Compliance Report, originally filed on December 29, 2015. The relatively minor changes are listed below, and highlighted in gray on the attached revised pages. The response to Question 1 of Chairman's Information Request No. 2 in this docket, filed on January 15, 2016, explains the revisions on pages 52 and 53. The changes on page 59 reflect revised inputs from USPS-FY15-33, and a revised version of folder 33 is under preparation.

<u>Page</u>	<u>Change:</u>
15	"\$396 million" to "\$396 thousand"
16	"62.88 percent" to "59.03 percent"
46	Delete the first full sentence beginning "Also, a ..."
52 (table) SFS row	"6.6" to "4.6" "(2.7)" to "(0.7)" "59.05%" to "85.07%"
52 (text)	"\$6.6" to "\$4.6" "59 percent" to "85 percent"
53	"nearly 50 percent" to "only 7 percent"
59	"26,196" to "26,518"

<u>Page</u>	<u>Change:</u>
59	"2,789" to "4,621"
59	"527" to "528"

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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January 21, 2016

print. The promotion provided business mailers with an upfront two percent postage discount on Standard Mail letters and flats and First-Class Mail presort and automation letters, flats, and cards. Participating mailpieces were required to incorporate advanced print technology such as innovations in paper and ink, the use of standard Near Field Communication technology, or an enhanced augmented reality experience allowing the recipient to engage in an interactive experience. Mailers could earn an upfront discount of two percent on eligible postage. As of September 30, 2015, the Postal Service has issued \$396 thousand in discounts for 49 million First-Class Mail pieces.

Earned Value Reply Mail

The Earned Value Reply Mail Promotion (May 1 to July 31, 2015) offered mailers of qualifying First-Class Mail Business Reply Mail (BRM) and Courtesy Reply Mail (CRM) enclosures a credit on each piece returned during the promotion period. Qualifying mailers earned \$0.02 per returned reply mail piece. Participants whose total CRM and BRM counts equaled or exceeded their counts from the 2014 promotion earned \$0.03 per piece. At the end of the promotion, the total credit amount was applied to the mailer's permit account, and could be applied to future mailings of First-Class Mail presort and automation cards, letters, and flats. Over the course of the program, the Postal Service issued \$11.3 million in credits for 488.6 million BRM and CRM pieces.

B. Standard Mail

1. Cost, Revenues, and Volumes

Costs, revenues, and volumes for Standard Mail products appear below.

Table 2: Standard Mail Volume, Revenue, and Cost by Product

Product	Volume (million)	Revenue (\$million)	Attributable Costs	Contribution	Revenue/Piece	Cost/Piece	Unit Contribution	Cost Coverage
HD/Sat Letters	6,478	\$991	\$454	\$538	\$0.153	\$0.070	\$0.083	218.49%
HD/Sat Flats & Parcels	11,232	\$2,037	\$1,176	\$861	\$0.181	\$0.105	\$0.077	173.26%
Carrier Route Letters	8,291	\$2,237	\$1,707	\$530	\$0.270	\$0.206	\$0.064	131.07%
Letters	47,721	\$10,023	\$4,930	\$5,093	\$0.210	\$0.103	\$0.107	203.30%
Flats	5,249	\$2,106	\$2,628	(\$522)	\$0.401	\$0.501	(\$0.099)	80.15%
Parcels	60	\$65	\$89	(\$24)	\$1.077	\$1.480	(\$0.402)	72.81%
Every Door Direct Mail Retail	833	\$148	\$52	\$97	\$0.178	\$0.062	\$0.116	287.89%
Standard Mail NSAs	226	\$53	\$46	\$8	\$0.236	\$0.202	\$0.034	116.78%
Standard Mail Fees		\$50						
Total Standard Mail (incl. fees)	80,090	\$17,711	\$11,081	\$6,630	\$0.221	\$0.138	\$0.083	159.84%

As shown above, all Standard Mail products other than Standard Mail Parcels and Standard Mail Flats covered their attributable costs in FY 2015. As a class, Standard Mail covered its attributable costs and contributed significantly to institutional costs.

Under section 3626(a)(6), when the Postal Service adjusts Standard Mail prices, the estimated average revenue per piece for Standard Mail sent by nonprofit mailers must equal, as nearly as practicable, 60 percent of the estimated average revenue per piece for Standard Mail sent by commercial customers. For FY 2015, the ratio was 59.03 percent.

i. Standard Mail Parcels

Standard Mail Parcels' cost coverage improved to 72.8 percent from 70.2 percent in FY 2014. As noted last year, despite above average price increases in recent dockets, several issues have caused this product's cost coverage to remain below 100 percent. First, on January 22, 2012, a large portion of the Parcels product – specifically, commercial Standard Mail machinable and irregular parcels generally sent for fulfillment

avoid exorbitant increases (e.g., prices for Mixed ADC pallets), or to provide incentives to encourage desirable behavior (e.g., prices for pure Carrier Route pallets).

Given the relatively low price cap space available, the Postal Service offset these increases by reducing both advertising and editorial pound rates, a change that benefits both the Postal Service and Periodicals customers. As the Postal Service noted in Docket No. R2015-4, piece weight is not a significant cost driver within the weight range of typical mail pieces (3 to 16 ounces), and the productivity of mail processing equipment (AFSM 100, FSS, APBS, or APPS) is not significantly impacted by minor weight increases.²²

Worksharing Incentives for 5-Digit and Carrier Route

In Docket No. R2015-4, the Postal Service implemented a pricing strategy designed to encourage the entry of more Carrier Route pallets in non-FSS zones. Prior to this change, approximately 87 percent of Periodicals Carrier Route bundles were entered at postal facilities on SCF and 3-Digit pallets.²³ Carrier Route bundles on these pallets are more expensive to process than those entered on 5-Digit and pure Carrier Route pallets. In order to encourage mailers to prepare more direct pallets, Carrier Route bundles entered on Carrier Route pallets now receive the lowest price available for Non-FSS regular Periodicals. We believe that this strategy, combined with pricing the bundles and pallets at their costs, will provide mailers with incentives to move bundles to Carrier Route/5-Digit pallets and reduce material handling costs.

²² United States Postal Service, Notice of Market-Dominant Price Adjustment (Jan. 15, 2015), at 27.

²³ USPS-FY15-14, Table MCS-4.

Table 6: Special Services Volume, Revenue and Cost by Service/Product								
Service/Product	Volume (Million)	Revenue (\$Million)	Attributable Costs (\$Million)		Revenue / Piece (\$)	Cost / Piece (\$)	Unit Contribution (\$)	Cost Coverage
				Contribution (\$Million)				
Certified Mail	196.7	659.2	485.4	173.8	3.35	2.47	0.88	135.81%
COD	0.3	3.1	3.0	0.1	9.75	9.47	0.28	102.96%
Insurance	22.7	89.1	50.3	38.9	3.92	2.21	1.71	177.29%
Registered Mail	2.4	37.9	27.1	10.7	15.49	11.10	4.39	139.59%
Stamped Envelopes	N/A	11.2	7.3	4.0	N/A	N/A	N/A	154.57%
Stamped Cards	N/A	1.2	0.9	0.3	N/A	N/A	N/A	140.24%
Other Ancillary Services	N/A	492.8	222.4	270.4	N/A	N/A	N/A	221.56%
Total Ancillary Services	N/A	1,294.6	796.4	498.2	N/A	N/A	N/A	162.56%
Int'l Ancillary Services	30.7	43.4	13.7	29.7	1.41	0.45	0.97	316.95%
Caller Service	N/A	98.8	27.3	71.5	N/A	N/A	N/A	362.45%
Address Management Services	N/A	17.7	4.5	13.3	N/A	N/A	N/A	396.93%
Credit Card Authentication*	14.6	16.0	1.5	14.6	1.10	0.10	1.00	1097.29%
Customized Postage	0.0	0.6	0.1	0.6	315,000	34,968	280,033	900.84%
Money Orders	92.8	160.5	105.1	55.4	1.73	1.13	0.60	152.72%
Post Office Box Service	N/A	310.9	228.5	82.4	N/A	N/A	N/A	136.09%
Stamp Fulfillment Services	N/A	3.9	4.6	(0.7)	N/A	N/A	N/A	85.07%
Total Special Services Mail	N/A	1,946.5	1,183.5	763.0	N/A	N/A	N/A	164.47%

*See USPS-FY14-NP26 for cost adjustments after revenue-sharing with third-party partners.

One Special Services product failed to cover its attributable costs in FY 2015: Stamp Fulfillment Services. The product had attributable costs of \$4.6 million in FY 2015, but listed revenues of only \$3.9 million, resulting in a cost coverage of 85 percent. Fees were not increased in 2015 because when fees were increased in 2014 revenue actually declined, suggesting that further fee increases may not improve the cost

coverage much. Revenue grew by 18 percent in 2015 even though the prices did not increase. However, costs increased by only 7 percent. The Postal Service continues to agree with the Commission's comments in the ACD for FY 2012, at 142:

The costs and revenues associated with the SFS product do not entirely capture the value that the Services Center adds to the Postal Service, and to other Postal Service products. Although SFS does not cover its attributable costs, by providing a mechanism for the centralized ordering of stamps, it reduces the costs associated with the retail purchases of stamps. Thus, it promotes the objectives of reducing costs and increasing efficiency. See 39 U.S.C. 3622(b)(1) and (c)(12).

F. Negotiated Service Agreements

There were two domestic market dominant Negotiated Service Agreements (NSAs) in effect in FY 2015: Valassis Direct Mail, Inc. ("Valassis") and PHI Acquisitions, Inc. ("Potpourri"). Full information regarding the Potpourri NSA appears in USPS-FY15-30. The Valassis NSA was approved by the Commission on August 23, 2012, in Order No. 1448.

As noted in the Valassis NSA Data Collection Report ("DCR")²⁴ furnished pursuant to Order No. 1448 (Docket Nos. MC201-14 and R2012-8), Valassis ceased NSA-related operations in Atlanta, GA in August 2013, and in Phoenix, AZ and Washington, DC in December 2013. No Valassis NSA-related operations are in effect at present in any markets, and there are no plans to resume mailing this product.²⁵ As there were no NSA-related operations in 2014 to present, Valassis did not mail any pieces eligible for contract prices in FY 2015, and thus incurred no transaction fees in

²⁴ Valassis Solutions Negotiated Service Agreement Data Collection Report, Docket Nos. MC2012-4 & R2012-8 (Nov. 10, 2015) [Hereafter, "Valassis DCR"].

²⁵ Docket No. ACR2014, Responses of the United States Postal Service to Questions 1-2 Of Chairman's Information Request No. 10 (Feb. 27, 2015) at 2.

Customer Satisfaction with Market Dominant Products (Mailing Services) -

FY 2015 (FY 2014)

Market Dominant Products (Mailing Services)	Residential % Rated Very/Mostly Satisfied	Small/Medium Business % Rated Very/Mostly Satisfied	Large Business % Rated Very/Mostly Satisfied (Q4 only)
First-Class Mail	89.22 (91.15)	84.77 (87.25)	83.27 (**)
Single-Piece International	85.80 (85.58)	82.31 (83.04)	82.65 (**)
Standard Mail	85.11 (86.76)	80.82 (83.82)	79.49 (**)
Periodicals	85.50 (85.90)	82.42 (83.26)	77.10 (**)
Single-Piece Standard Post	86.66 (88.92)	82.65 (84.06)	77.81 (**)
Media Mail	87.17 (88.66)	85.18 (86.55)	78.61 (**)
Bound Printed Matter	--* (--*)	81.70 (81.72)	76.54 (**)
Library Mail	85.10 (--*)	85.43 (81.79)	78.66 (**)
*-- Number of responses received did not meet minimum threshold for 90% level of confidence. ** -- FY14 Not Available. The Postal Service concluded that a separate Large Business survey was not needed in FY2014 due to the inclusion of the Business Services Network (BSN) component of the Customer Insights (CI) survey. See USPS FY2014 ACR at 40. Although the FY2015 CI survey includes a BSN component, in response to questions posed by the Commission in response to the FY2014 ACR, the Postal Service elected to perform a Large Business survey in Quarter 4 of 2015, and reports those results here.			

C. Consumer Access to Postal Services

Information regarding Post Offices, collection boxes, wait time in line, and delivery points is contained in USPS-FY15-33. The Postal Service closed no Post Offices and no stations or branches in FY 2015. At the end of FY 2015, there were 26,518 Post Offices, 4,621 stations and branches, and 528 carrier annexes. Also at the end of FY 2015, there were 469 suspensions of Post Offices in effect and 107